

Overview of the GSEs' Housing Goal Performance, 2000-2007

The accompanying tables describe the performance of Fannie Mae and Freddie Mac relative to the three affordable housing goals that Congress established in the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 (FHEFSSA). These goals are the Low-and Moderate-Income Housing Goal, the Underserved Areas Housing Goal, and the Special Affordable Housing Goal. The Department of Housing and Urban Development (HUD) also established a Special Affordable Multifamily Subgoal.

Transfer of Authority from HUD to the FHFA. President Bush signed the Housing and Economic Recovery Act of 2008 (HERA, P.L. 110-289) on July 30, 2008. HERA transferred authority over the GSEs' housing goals from HUD to the Federal Housing Finance Agency on the date of enactment. Thus the establishment of future housing goals, future determinations regarding goal performance, and any future determinations regarding the feasibility of particular goals will be made by the FHFA. HERA also revised Section 1331(c) of FHEFSSA to maintain the 2008 goals established by HUD for 2009, but required that the FHFA review such goals not later than the 270-day period beginning on the date of enactment. HERA specifically requires the FHFA Director to determine the feasibility of such goals given the market conditions at such time and, after seeking public comment for a period not to exceed 30 days, to make any appropriate adjustments consistent with such market conditions.

Goals and Goal Performance. In October 2000 HUD established the goals for 2001-03, and the 2003 goals were subsequently extended to 2004. In November 2004 HUD published regulations that set the level of each goal for 2005-08. **Table 1** provides the goal levels for the years 2000-2007 and shows how each GSE performed under the three goals and the Special Affordable Multifamily Subgoal for each of those years. These figures are based on HUD's analysis of GSE loan-level data.

With the exception of the Special Affordable Multifamily Subgoals, where performance is measured against dollar-based targets, performance under each of the three housing goals is based on the number of dwelling units that *qualify* to count toward the goal (the numerator) as a percentage of the number of units *eligible* to count (the denominator). Eligible units are limited to properties where the mortgages are *conforming* (see below) and mostly *conventional* and which satisfy other counting rules.¹ The calculation includes mortgages that were originated either prior to or during the year of purchase by the GSE, and it is based on purchases of both refinance and home purchase loans, as well as second mortgage loans. A dwelling unit may count toward more than one goal.

¹ Certain Federally insured or guaranteed loans are also eligible, as set forth in sec. 81.16(b)(3)(ii) of HUD's regulations. For example, purchases of Rural Housing Service (RHS) mortgages and FHA Home Equity Conversion Mortgages (HECMs) are eligible for goal credit. The GSEs can also purchase other Federally-backed mortgages, but such purchases are excluded altogether in calculating goal performance.

Conforming Loan Limits One-Unit Properties*

| <u>Year</u> | <u>Limit</u> |
|-------------|--------------|
| 2000 | \$252,700 |
| 2001 | \$275,000 |
| 2002 | \$300,700 |
| 2003 | \$322,700 |
| 2004 | \$333,700 |
| 2005 | \$359,650 |
| 2006 | \$417,000 |
| 2007 | \$417,000 |

*Except for Alaska, Hawaii, Guam and the Virgin Islands, where the loan limits are 50 percent higher.

From 1996 through 2000, the counting treatment for units with missing data (e.g., borrower income or rent data) was different than permitted under HUD's subsequent regulation covering the 2001-2004 period. During the earlier period, all eligible units financed after 1992 had to be included in the denominator, even where there was insufficient information to determine whether the unit qualified under a goal. Effective January 1, 2001, HUD's regulations allow some units with missing data to be excluded from the denominator as well as the numerator, or to be included in both the numerator and the denominator based on estimation techniques.

Also, for 2001-03 "bonus points" were applied for goal-qualifying units financed by GSE mortgage purchases for small (5- to 50-unit) multifamily properties and, above a specified threshold level, for 2- to 4-unit owner-occupied properties. That is, such units counted as two units in the numerator (and one unit in the denominator) in calculating goal performance. In addition, as mandated by Congress, a 35 percent upward adjustment was made in the numerator to the number of goal-qualifying units in large (more than 50-unit) multifamily properties financed by Freddie Mac's mortgage purchases. The 2001-03 performance data presented in Table 1 reflect bonus point adjustments and the Freddie Mac multifamily adjustment. Because of these changes in counting rules, goal performance in 2001-03 is not strictly comparable with performance in 2000. Bonus points and Freddie Mac's upward adjustment factor did not apply to GSE goal performance after 2003, thus in effect the goals for 2004 were increased by the value of those incentives to the GSEs, and the 2004-07 performance numbers are not strictly comparable with those for 2001-03.

Home Purchase Subgoals and Performance. In its November 2004 Final Rule, HUD established new housing goal levels for Fannie Mae and Freddie Mac for calendar years 2005 through 2008. That Final Rule also established subgoals for GSE acquisitions of goal-qualifying home purchase mortgages on owner-occupied properties in metropolitan areas for each of the three overall goal categories. **Table 2** presents the home purchase subgoals and performance on those subgoals for 2005-07. As a benchmark, Table 2 also presents data on the shares of units financed by the GSEs in 2000-04 that would have qualified for the home purchase subgoals if they had been in effect during those years.

Future Goals and Subgoals. Under HUD’s 2004 Final Rule, the housing goals increase gradually over the 2005-08 period. This phasing-in of the goals is shown in **Table 3**. The rationale for this approach was that the housing goals should increase over time, so that by 2008 they would equal the projected shares of goal-qualifying units financed in the primary mortgage market, as estimated by HUD. As also shown in Table 3, the home purchase subgoals also increase gradually over this period. The rationale for the increases in the home purchase subgoals was that the GSEs’ should lead the primary market in their acquisitions of such mortgages for qualifying families and locations. This approach was consistent with Congressional intent that HUD should take into account the ability of the GSEs to “lead the industry” in making mortgage credit available to these families and locations.²

For more information about the goals and subgoals in effect for 2005-08, see the November 2004 Final Rule at Federal Register, Vol. 69, No. 211, November 2, 2004, pp. 63580-63887, which is also available for download on HUD’s web site, at <http://www.hud.gov/offices/hsg/gse/gse.cfm>. Additional information about goal performance and GSE loan-level data submitted to HUD is contained in the following publications, all of which are available on www.huduser.org, the Web site maintained by HUD’s Office of Policy Development and Research.:

“Fannie Mae and Freddie Mac: Enhanced Public Data and Recent Housing Goal Performance,” published in *U.S. Housing Market Conditions*, February 2006, pp. 6-15.

Paul B. Manchester, “Goal Performance and Characteristics of Mortgages Purchased by Fannie Mae and Freddie Mac, 2001-05,” *Housing Finance Working Paper No. HF-017*, May 2007, revised April 2008.

Harold L. Bunce, “The GSEs’ Funding of Affordable Loans: A 2004-05 Update,” *Housing Finance Working Paper No. HF-018*, June 2007.

“HUD’s Home Purchase Goals for Fannie Mae and Freddie Mac,” published in *U.S. Housing Market Conditions*, November 2007, pp. 5-9.

November 2008

² See sections 1332(b)(5), 1333(a)(2)(D), and 1334(b)(5) of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992.

Table 1

Overview of the GSEs' Housing Goal Performance, 2000-2007¹

| Goal ² | GSEs' Housing Goal Performance ¹ | | | | | | | | | 2000 Goals | 2001-04 Goals | 2005 Goals | 2006 Goals | 2007 Goals |
|---|---|--------|--------|---------|--------|---------|---------|---------|--------------------|---------------|------------------|---------------|---------------|---------------|
| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | Ratio 2007-2000 | | | | | |
| Low- and Moderate-Income: | | | | | | | | | | | | | | |
| Fannie Mae | 49.5% | 51.5% | 51.8% | 52.3% | 53.4% | 55.1% | 56.9% | 55.5% | 1.12 | 42% | 50% | 52% | 53% | 55% |
| Freddie Mac | 49.9% | 53.2% | 50.3% | 51.2% | 51.6% | 54.0% | 55.9% | 56.1% | 1.12 | | | | | |
| Ratio | 1.01 | 1.03 | 0.97 | 0.98 | 0.97 | 0.98 | 0.98 | 1.01 | | | | | | |
| Underserved Areas: | | | | | | | | | | | | | | |
| Fannie Mae | 31.0% | 32.6% | 32.8% | 32.1% | 33.5% | 41.4% | 43.6% | 43.4% | 1.40 | 24% | 31% | 37% | 38% | 38% |
| Freddie Mac | 29.2% | 31.7% | 31.0% | 32.7% | 32.3% | 42.3% | 42.7% | 43.1% | 1.48 | | | | | |
| Ratio | 0.94 | 0.97 | 0.95 | 1.02 | 0.96 | 1.02 | 0.98 | 0.99 | | | | | | |
| Special Affordable: | | | | | | | | | | | | | | |
| Fannie Mae | 19.2% | 21.6% | 21.4% | 21.2% | 23.6% | 26.3% | 27.8% | 26.8% | 1.40 | 14% | 20% | 22% | 23% | 25% |
| Freddie Mac | 20.7% | 22.6% | 20.5% | 21.4% | 22.7% | 24.3% | 26.4% | 25.8% | 1.25 | | | | | |
| Ratio | 1.08 | 1.05 | 0.96 | 1.01 | 0.96 | 0.92 | 0.95 | 0.96 | | | | | | |
| Special Affordable Multifamily ⁴ : | | | | | | | | | | | | | | |
| Fannie Mae | \$3.79 | \$7.36 | \$7.57 | \$12.23 | \$7.32 | \$10.39 | \$13.31 | \$19.84 | 5.23 | \$1.29 | \$2.85 | \$5.49 | \$5.49 | \$5.49 |
| Freddie Mac | \$2.40 | \$4.65 | \$5.22 | \$8.79 | \$7.77 | \$12.35 | \$13.58 | \$15.12 | 6.30 | \$0.99 | \$2.11 | \$3.92 | \$3.92 | \$3.92 |

Source: HUD and FHFA analysis of data submitted by the GSEs. Some results differ from performance reported by the GSEs in their Annual Housing Activities Reports (AHARs).

¹ Percentages of dwelling units in properties whose mortgages were purchased by the GSEs that qualified for each goal in 2000-2007, based on HUD's October 2000 rule and November 2004 rule, and goals for 2000-2007. Underserved areas goal for 2000-04 based on 1990 census data, goal for 2005-07 based on 2000 census data

² Abbreviated definitions of goals

Low- and Moderate-Income: Households with income less than or equal to area median income (AMI).

Underserved Areas: Dwelling units in metropolitan census tracts with (1) tract median family income less than or equal to 90 percent of AMI or (2) minority concentration of at least 30 percent and tract median family income less than or equal to 120 percent of AMI; dwelling units in nonmetropolitan counties with (1) median family income less than or equal to 95 percent of the greater of state or national nonmetropolitan median income or (2) minority concentration of at least 30 percent *and* county median family income less than or equal to 120 percent of the greater of state or national nonmetropolitan median income.

Special Affordable: Households with income (1) less than or equal to 60 percent of AMI or (2) less than or equal to 80 percent of AMI and located in low-income areas.

For the low- and moderate-income and special affordable goals, AMI is median income for the MSA for borrowers in metropolitan areas, and the greater of county or state nonmetropolitan median income for borrowers outside metropolitan areas.

³ Ratio of Freddie Mac goal performance to Fannie Mae goal performance.

⁴ Performance and goals in billions of dollars. Goals for 1996-2000 period were 0.8 percent of each GSE's total mortgage purchases in 1994; goals for 2001-04 period were 1.0 percent of each GSE's average total mortgage purchases in 1997-99 period; and goals for 2005-07 were 1.0 percent of each GSE's average mortgage purchases in 2000-2002.

Table 2

Shares of GSEs' Single-Family Purchase Mortgages on Owner-Occupied Properties in Metropolitan Areas Qualifying for GSE Housing Goals, 2000-07

| Goal ¹ | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 HP Subgoal | 2005 Subgoal Performance | 2006 HP Subgoal | 2006 Subgoal Performance | 2007 HP Subgoal | 2007 Subgoal Performance ⁴ | Ratio 2007-2000 |
|--------------------------------|-------|-------|-------|-------|-------|--------------------|-----------------------------|--------------------|-----------------------------|--------------------|--|--------------------|
| Low- and Moderate-Income: | | | | | | | | | | | | |
| Fannie Mae | 40.8% | 42.9% | 45.3% | 47.0% | 47.0% | 45% | 44.6% | 46% | 46.9% | 47% | 42.1% | 1.03 |
| Freddie Mac | 42.7% | 41.3% | 44.0% | 43.8% | 43.3% | | 46.8% | | 47.0% | | 43.5% | 1.02 |
| Ratio | 1.05 | 0.96 | 0.97 | 0.93 | 0.92 | | 1.05 | | 1.00 | | 1.03 | |
| Underserved Areas ³ | | | | | | | | | | | | |
| Fannie Mae | 23.4% | 24.4% | 26.7% | 26.8% | 28.4% | 32% | 32.6% | 33% | 34.5% | 33% | 33.4% | 1.43 |
| Freddie Mac | 22.0% | 22.3% | 25.8% | 24.0% | 26.7% | | 35.5% | | 33.6% | | 33.8% | 1.54 |
| Ratio | 0.94 | 0.91 | 0.97 | 0.90 | 0.94 | | 1.09 | | 0.97 | | 1.01 | |
| Special Affordable: | | | | | | | | | | | | |
| Fannie Mae | 13.3% | 14.9% | 16.3% | 17.1% | 16.8% | 17% | 17.0% | 17% | 18.0% | 18% | 15.5% | 1.17 |
| Freddie Mac | 14.7% | 14.4% | 15.8% | 15.6% | 15.2% | | 17.7% | | 17.0% | | 15.9% | 1.08 |
| Ratio | 1.11 | 0.97 | 0.97 | 0.91 | 0.90 | | 1.04 | | 0.94 | | 1.03 | |

Source: For 2000-03, as reported in Table A.11, Federal Register, November 2, 2004, p.3698. For 2004-2007, HUD and FHFA analysis of data submitted by the GSEs.

¹ Abbreviated definitions of goals

Low- and Moderate-Income: Households with income less than or equal to area median income (AMI).

Underserved Areas: Dwelling units in metropolitan census tracts with (1) tract median family income less than or equal to 90 percent of AMI or (2) minority concentration of at least 30 percent and tract median family income less than or equal to 120 percent of AMI; dwelling units in nonmetropolitan counties with (1) median family income less than or equal to 95 percent of the greater of state or national nonmetropolitan median income or (2) minority concentration of at least 30 percent and county median family income less than or equal to 120 percent of the greater of state or national nonmetropolitan median income.

Special Affordable: Households with income (1) less than or equal to 60 percent of AMI or (2) less than or equal to 80 percent of AMI and located in low-income areas.

For the low- and moderate-income and special affordable goals, AMI is median income for the MSA for borrowers in metropolitan areas, and the greater of county or state nonmetropolitan median income for borrowers outside metropolitan areas.

² Ratio of Freddie Mac goal performance to Fannie Mae goal performance.

³ Data for 2000-04 based on 1990 census; subgoal and performance for 2005-07 based on 2000 census.

⁴ In April 2008 HUD declared that the 2007 low- and moderate-income and special affordable home purchase subgoals were infeasible.

Table 3

GSEs' Housing Goals and Subgoals, 2005-08

| Category | Goal/Subgoal | 2005 | 2006 | 2007 | 2008 |
|--------------------------|--------------------------------------|-----------------|-------------------------------------|-----------------|------|
| Low- and Moderate-Income | Goal | 52% | 53% | 55% | 56% |
| | Home Purchase Subgoal ^{1,2} | 45% | 46% | ----- 47% ----- | |
| Underserved Areas | Goal | 37% | ----- 38% ----- | | 39% |
| | Home Purchase Subgoal ¹ | 32% | ----- 33% ----- | | 34% |
| Special Affordable | Goal | 22% | 23% | 25% | 27% |
| | Home Purchase Subgoal ^{1,2} | ----- 17% ----- | | ----- 18% ----- | |
| | Fannie Mae Multifamily Subgoal | ----- | ----- \$5.49 billion per year ----- | | |
| | Freddie Mac Multifamily Subgoal | ----- | ----- \$3.92 billion per year ----- | | |

¹ Subgoal for acquisitions of home purchase mortgages on owner-occupied 1-4 unit properties in metropolitan areas.

² In April 2008 HUD determined that the Low- and Moderate-Income Home Purchase Subgoal for 2007 (47 percent) and the Special Affordable Home Purchase Subgoal for 2007 (18 percent) were not feasible, and the Department notified Fannie Mae and Freddie Mac of its determination in letters dated April 24, 2008.